

**Testimony**

**Of**

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**Before the**

**SUBCOMMITTEE ON GOVERNMENT PROGRAMS AND OVERSIGHT  
COMMITTEE ON SMALL BUSINESS  
U.S. HOUSE OF REPRESENTATIVES**

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Good morning Mr. Chairman and Members of the Subcommittee. My name is Jere W. Glover, Chief Counsel for Advocacy at the U. S. Small Business Administration. I am pleased to address the issue of E-Commerce and the potential for small business. Before proceeding, however, I wish to state that the views expressed here are my own and do not necessarily reflect the views of the Administration or the SBA Administrator.

I would like to lay some foundation before I speak to the issue of particular interest to the Subcommittee.

Congress has struggled for years to determine how to address the problem of regulatory burdens on small business; how to make agencies consider the value of small business to the economy; and how to get agencies to solve public policy issues by getting to the root causes of problems without imposing “one size fits all” regulatory solutions, but, instead, customizing solutions that maximize impact and compliance, while minimizing the impact on small business.

Government procurement has been a particularly challenging issue. Congress has rightly been concerned that federal tax dollars be used to get the “best buy,” that government manage the procurement process efficiently – meaning at the lowest possible operating cost – and that, at the same time, be assured that tax dollars do not promote industrial concentration, that they do in fact promote competition to ensure lowest costs in the long run. Safeguards were instituted to ensure against abuses such as favoritism in the award of contracts; failure on the part of contracting officers to “shop” the marketplace, etc. Mandates were also established to ensure that small businesses would have some viable access to federal contracting opportunities.

Congressional reforms created a single acquisition regulation, the Federal Acquisition Regulation. Other legislation – the prompt Payment Act, the Equal Access to Justice Act and the Competition in Contracting Act – were all enacted in the name of reform, with a view toward ensuring fairness and small business access to government contracting.

Within the past decade, however, the entire procurement process came under criticism for being inefficient - too bureaucratic – and too costly from an agency operating cost perspective. Legitimate concerns were raised about so-called cumbersome processes. In response Congress enacted the Federal Acquisition Streamlining Act, the Federal Acquisition Reform Act and the Clinger-Cohen Act.

It is perhaps fair to characterize the reform movement of the 80s as an attempt to remove the conditions that had given rise to waste, fraud and abuse, and that of the 90s as streamlining the acquisition system – pushing the government toward increased use of the Internet and reduced reliance on costly paper acquisition systems.

However, in the push for streamlining, which Advocacy largely supported, Advocacy nevertheless remained concerned that enough safeguards were not built into the reforms. The safeguards we believed were needed were those that would ensure the government continuously shopped for the “best buy” – found most often in the small business sector, the major source of price and quality competition in the economy – and that the vast purchasing power of the U.S. government would not, in effect, end up promoting economic concentration rather than competition. We remained concerned that the reforms advanced in the name of efficiency would result in more bundling of contracts into large contracts on which small businesses could not bid. We also were concerned that contracting officers, being given more discretion in selecting contractors at the same time that the number of contracting officer positions was being reduced, would not have the right incentives to reach out to small businesses on contracts and purchases where small business was truly competitive.

Computer technology and the Internet provided an option to help implement operating efficiencies while providing important information on small business capabilities. To reduce search costs, contracting officers needed a service, properly designed, that would make it easy for them to find qualified small businesses. Thus, *PRO-Net* was developed by the Office of Advocacy. It is a data base that profiles small businesses, providing information on what services and products they offer, their history, etc. It has as its long term goal to be a one-stop information portal on small businesses which all contracting officers – public and private – could consult to find qualified small business vendors. It was a major step toward making it easy for small businesses to do business with all federal agencies (as well as state and local agencies) and to have the

data base linked to other federal programs then under development to increase the efficiency of contract management.

But this new Internet based service could not and was never intended to address all the concerns Advocacy had about the most recent reforms that we suspected would lead to increased contract bundling and the by-passing of small business by contracting officers with impunity.

More than five years have elapsed since the 1994 Federal Acquisition Streamlining Act and we are now beginning to document what has happened. Advocacy contracted for several studies:

- One on contract bundling;
- One on credit card purchases; and
- One on Federal Procurement Center data

In general, these reports are showing that fewer contracts or fewer contract dollars are going to small business. Let me share with you some data.

### Contract Bundling

Advocacy's contractor, Eagle Eye Publishers, Inc., produced data showing that bundling is associated with a decline of dollars to small business. Specifically,

- Between fiscal years 1989 and 1997, only 8.9 percent of all prime federal contracts were bundled. That seems like small number *except* when one considers that the dollar value of those contracts represented 56.6 percent of all federal prime contract dollars.
- The share of bundled contracts has grown annually since FY 1995 from 9.98 per cent in FY 95 to 12.4 per cent in FY 97.

- Bundling is growing in the Construction and Other Services sector, where there are many small businesses, but appears to be declining in the R&D and Supplies and Equipment sectors. Where bundling is occurring, it is harming small business.
- The small business share of all federal contacts shrank 1.43 per cent between FY 96 and FY 98.

### Credit Card Purchases

Advocacy has contracted with Eagle Eye Publishers, Inc. to examine data from the Federal Procurement Data Center to see if any determinations can be made as to the number and amount of credit card purchases made with small firms. The data is very preliminary but does show that credit card purchases have increased dramatically, as expected. The total value of purchases made by credit cards in FY 99 was \$10 billion. If small business' share remained constant, that would mean \$4 billion would have been spent with small business. Whether or not this is happening is what remains to be documented.

### Federal Procurement Center Data

In FY 98 Advocacy issued a report on data from the Federal Procurement Centers. This report for the first time compiled and published procurement data by individual buying centers and broke down the data on awards to small firms by state and by congressional district. The results were interesting. Overall two-thirds (\$120.2 billion) of the total prime contract dollars were controlled by those centers that spent the least on small firms. These centers spent on average just 6.3 percent of their contract dollars with small firms – a total of only \$7.6 billion. More than 10 percent of the centers *did no*

*business at all* with small business. The FY 99 report is near completion and there is no reason to believe that much has changed. The grounds for our suspicion is that no safeguards – no incentives – no accountability measures have been put in place to monitor contract awards in advance.

Data tell us that something is wrong; it does not, however, tell us how to fix the problems. Advocacy makes no claim to hands-on expertise with procurement processes. Nor does it have working knowledge on the day-to-day management of federal contracting. Thus, as is our practice, we convened a meeting of private sector individuals who are conversant with procurement processes and with the world of small businesses trying to do business with the government. The meeting included Dr. Steven Kelman, the former Administrator of the OMB Office of Federal Procurement Policy (OFPP), who has returned to Harvard University after his stint with OFPP. Dr. Kelman, as you know, is the author of many of the procurement reforms adopted to correct inefficiencies in the system.

Drawing on their collective expertise, the group identified several problems that were causing the reduced small business share of federal procurement and the downward trend that would likely continue unless changes were made. Among them:

1. Streamlining rules that give contracting officers significant discretion to deal with large firms, without any built-in small business safeguards;
2. Government-Wide Agency Contracts (GWACs) that bundle, for ease of contract administration, what had previously been individual requests for proposals (RFPs) and contract awards that would, because of their size, effectively preclude small business from competition.

The corrective steps the group believed deserved consideration were as follows:

1. Develop GWACs on which only small businesses can bid and establish GWAC small business goals for each agency.
2. Ensure that all awards – large and small – made to companies on the GSA schedules are reported on an agency’s procurement goal reports so that awards to large firms cannot be hidden.
3. Establish Blanket Purchase Agreements (BPAs) for small business, 8(a), SDB and women-owned businesses selected from GSA schedules for various supplies and services and make the BPAs available for government-wide use.
4. Make *PRO-Net* the central registration for all small businesses.
5. Expand mandatory use of and reliance on *PRO-Net* to overcome contracting officer inertia in searching for small businesses.
6. Establish interagency surveillance review teams to target procurement centers where awards to small business are declining or are non-existent.
7. Establish a program of monetary incentive awards to program and contracting officers for making awards to small business; and
8. Issue a policy directive to executive branch agencies that urges them to use SBA/OMB contract waiver provisions to award service contracts of less than \$100K to small business.

These recommendations have been forwarded to OFPP and SBA and some steps have been taken. For example, we are working with Deirdre Lee, Director of OFPP, and Sherrye Henry, head of SBA’s Women’s Business Office, to develop a single point of

registration for small firms and women-owned firms, which could also become an information site where small firms can find information on all available contracts. *PRO-Net* could be this site. If this can be accomplished, it will reduce the search costs of finding contract opportunities.

While there are signs of progress, clearly more has to be done to ensure that small business has ready access to federal procurement opportunities and that contracting officers do not overlook the most competitive sector of the economy.

What does this have to do with E-Commerce and small business? Let me share with you what we do know. Procurement reforms have led to federal agencies posting business opportunities on the Internet. All federal contractors are now required to transmit invoices electronically. Many federal contractors are also being required to accept contract payments by credit card. The question these changes pose is: how is this affecting small business?

An Advocacy study published in 1999 showed that over 4.5 million small employers used computer equipment in their business in 1998. The percentage of small businesses with access to the Internet nearly doubled from 1996 to 1998 from 21.5 per cent to 41.2 per cent respectively. However - and this is significant - only 1.4 per cent of Internet use among small businesses is directed to e-commerce sales. In addition, this report identified several obstacles facing small business in e-commerce. Costs, security concerns, technical expertise, and customer service were the major roadblocks to greater small business participation in e-commerce. Cost was singled out as the most common and greatest impediment to expanding e-commerce. Three basic cost concerns identified by respondents were: 1) lack of funds for up front implementation costs; 2) lack of



monthly cash flows to maintain their sites; and 3) the probability that there would not be a real return on their investment.

All of these taken together leads us to conclude that without managerial systems in place, or accountability measures that provide incentives for agencies to do business with small business, or services that make it easy for contracting officers to find small business, the benefits of E-Commerce as used by the federal procurement system will not redound to small business. Moreover, without such changes, small business will not have the incentive to increase its use of the Internet. There will grow and remain a digital divide – a divide that will be caused in large part by the failure of federal policies to ensure small business access to federal procurement opportunities. E-Commerce and the Internet are but tools that without the right building blocks can be used to by-pass small business. The building blocks on which the use of technology is grounded are what concern me. Ensuring that the government does business with small business is not dependent on technology. Rather it is dependent on policies and mandates. And it is important to remember that doing business with small business is not social welfare. It is good government and good business. To prove this point I defy anybody to find a \$700 toilet seat sold by a small business.

E-Commerce is at the center of efficiency reforms in the federal government. It requires business to be computer oriented. Businesses must know how to navigate the Internet, venture into foreign cyberspaces, transact sensitive and proprietary business on line with limited assurances of privacy protection, avoid cyber crime. But none of this addresses the rules by which contracting officers are to make decisions. Without such

rules, small business' share of federal procurement will continue to decline. That is our concern.

A number of the steps we have outlined above are designed to help small business increase its reliance on e-commerce. However, just as *PRO-Net* was a leap forward, we need new ideas and programs that make it easier for contracting officers to find, select and award contracts to small business, including women and minority-owned businesses.